INSIDER'S EDGE: Issue 143: More Household Construction

We're still building households in this issue of the Insider's Edge. This week's scenario is inspired by a reader question!

Remember the relationship-based rules? Scroll down for the week's scenario!

A Quick Refresher: Relationship-Based Rules

For purposes of determining eligibility for insurance affordability programs, including Medicaid, in most cases the household includes the people who live together and file federal income taxes together for the taxable year in which the eligibility determination is made.

Tax filer household rules:

- Tax filer is head of household and usually the primary applicant;
- Tax filer's spouse (must file jointly for APTC/CSR);
- Anyone else the tax filer will claim as a tax dependent (i.e. claim a personal exemption deduction for) on that year's tax return.
    - For example, the taxpayer's older children will count toward the family size if the taxpayer claims them as a dependent even if they don't live at home.

Under the tax dependent household rules, the following individuals must be included in the household:

- Tax dependent;
- Tax filer who is claiming the individual as a tax dependent (this could be two people if filing jointly);
- Tax filer's spouse, if living with the tax filer;
- Any other tax dependents the taxpayer(s) claim;
- The tax dependent's spouse if they live together.

There are a number of situations in which the household rules used to determine Medicaid eligibility are different from the general tax-based household rules. When these exceptions arise, the Medicaid household for the applicant is constructed based on the relationships between family members who live together and is not based on tax filing relationships.

So what exceptions trigger use of the relationship-based rules for Medicaid eligibility determinations?

Application of Relationship-Based Rules
1) Applicant is not planning to file taxes (and is not claimed as a dependent).
2) Individual is claimed as a dependent by person who is not a parent or stepparent, for example, a grandparent or other caretaker relative.
3) Child, under age 21, lives with both parents, but only one parent will claim the child as a tax dependent.
4) Child, under age 21, lives with a custodial parent but will be claimed as a tax dependent by a noncustodial parent.

If one of the exceptions above is triggered, how is the household constructed using the relationship-based rules?

For adults, a household must consist of:

- Adult applying for coverage;
- Adult's married spouse, if living with the applicant; and
- Adult's natural, adopted and stepchildren, or any child for whom they act as a caretaker, up to age 21, if living with the adult.

For children (under age 21), a household must consist of:

- A child applying for coverage.
- Any of the child's parents or stepparents (or adoptive parents), if living with the child.
- Any of the child's siblings or stepsiblings (or adoptive siblings) under age 21 and living with the child.
- If the child is married, the spouse (if the spouse is living with the child); and if the child has their own children, the children and step-children (if living with the married child).

<u>Here's this week's scenario:</u>

Karl and Sharon are married, and for 2016 their tax status was married filing separately. Sharon claimed their newborn daughter, Gina, as a tax dependent in 2016. Karl and Gina are U.S. Citizens, and Sharon is a Lawful Permanent Resident for the past 6 years, and was eligible for Medicaid when she became pregnant. Gina is eligible in Medicaid as a deemed newborn (child born to a Medicaid-eligible mother).

Karl and Sharon have decided their 2017 tax status will be married filing jointly, with Sharon as the head of household claiming Gina as a tax dependent. Sharon's annual income is $26,000 and Karl's annual income is $19,000. What is their household status in 2016 and 2017, and what should their determinations be?

<u>Answer:</u>

Let's break down the households by year:

- 2016:
  - Karl's tax filing status was married filing separately and he did not claim a dependent. Since he and Sharon filed taxes separately, he may not qualify for an advanced premium tax credit or cost sharing reduction (APTC/CSR). In most cases, you must file jointly for APTC/CSR—read more in [Issue 65](). Karl's household size is 2 (Karl and Sharon), and based on their income, they do not qualify for Medicaid.

  - Sharon's tax filing status was married filing separately, and she claimed Gina as a dependent. Since Sharon and Karl are married and live together with Gina, Sharon's household size is 3. Her immigration status is not a factor because she is a Lawful Permanent Resident for over 5 years. Based on their income, she does not qualify for Medicaid, and since she did not file taxes jointly, does not qualify for QHP with financial assistance.

  - Gina was claimed as a dependent by Sharon only, which savvy readers will remember triggers the application of the relationship-based rules! Gina is under age 21, lives with both parents, but only one parent (Sharon) will claim her as a tax dependent. Sharon, Karl, and Gina all live together, so Gina's household size is 3, and she may be eligible for Maryland Children's Health Plan (MCHP).

- 2017: Sharon and Karl's tax filing status will change in 2017 to married, filing jointly. This means their household size is 3 (Sharon, Karl, and Gina). With their combined income of $45,000, Sharon and Karl exceed the threshold for Medicaid eligibility but may qualify for a qualified health plan (QHP) with financial assistance. However, Gina may still be eligible for MCHP Premium based on her parent's income. Sharon should submit a status change to their family's application on the Maryland Health Connection website.